

## Message Text

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PAGE 01 STATE 088294

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ORIGIN EA-09

INFO OCT-01 NEA-10 ISO-00 TRSE-00 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 DODE-00 PA-01

PRS-01 /064 R

DRAFTED BY TREASURY/OSAA:CBAZARIAN:EA/K:PMAYHEW

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TREASURY - M'FADDEN

TREASURY - POUNDS

TREASURY - MALONEY

NEA/ARP - CCECIL

NEA/RA - DMORRISON

----- 040637

R 130110Z APR 76

FM SECSTATE WASHDC

TO AMEMBASSY SEOUL

INFO AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY TEHRAN

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E.O. 11652: GDS

TAGS: ECRE, EFIN, OPEC, KS, XF

SUBJECT: SYNDICATION BY US BANKS OF STANDBY GUARANTEE  
FOR KOREAN MIDDLE EAST CONSTRUCTION PROJECTS

REF: SEOUL 1452

1. SUMMARY: IT APPEARS THAT ONE EFFECT OF THE FNCB  
SYNDICATION OF A STANDBY LOAN TO SUPPORT THE KOREAN  
EXCHANGE BANK'S GUARANTEE OF KOREAN PRIVATE CONSTRUC-  
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PAGE 02 STATE 088294

TION COMPANIES' BID, PERFORMANCE, AND ADVANCE PAYMENT

GUARANTEES ON LARGE MIDDLE EASTERN CONTRACTS IS TO SUPPORT KOREANS IN COMPETITION WITH U.S. CONSTRUCTION INDUSTRY'S EFFORTS TO ACQUIRE FINANCING FOR POSTING GUARANTEES IN THE MIDDLE EAST. END SUMMARY.

2. U.S. BANKERS HAVE INFORMED TREASURY OFFICERS THAT \$100 MILLION OF STANDBY LOAN REPORTED REFTEL HAS BEEN FULLY SUBSCRIBED, BUT THAT LOAN HAS BEEN INCREASED TO \$150 MILLION; \$50 MILLION REMAINS UNSUBSCRIBED. FIRST NATIONAL CITY BANK, BANK OF AMERICA, AND MANUFACTURERS HANOVER TRUST ARE THE LEAD BANKS OF SYNDICATE WITH \$15 MILLION PARTICIPATION EACH.

3. STANDBY LOAN SYNDICATION IS NOT A BALANCE OF PAYMENTS

LOAN, BUT AS NOTED REFTEL APPEARS TO BE FOR THE PURPOSE OF IMPROVING THE FINANCIAL CAPABILITY OF THE GOVERNMENT-OWNED KOREAN EXCHANGE BANK TO PROVIDE GUARANTEES TO PRIVATE KOREAN CONSTRUCTION COMPANIES. AS A STANDBY LOAN, IT INDIRECTLY HELPS KOREA'S BALANCE OF PAYMENTS TO THE EXTENT THAT IT ENABLES KOREAN FIRMS TO WIN CONTRACTS THEY WOULD NOT OTHERWISE WIN. TREASURY WOULD APPRECIATE EMBASSY COMMENTS ON WHETHER THE PRIVATE KOREAN FIRMS PAY THE FULL 2 1/2 PERCENT COST BORNE BY THE KOREA EXCHANGE BANK FOR THE STANDBY LOAN. WHILE IT OBVIOUSLY WITHIN U.S. BANKS' PEROGATIVE TO SYNDICATE STANDBY LOAN FOR KEB, SIDE EFFECT OF LOAN IS TO IMPROVE POSITION OF KOREAN FIRMS IN COMPETITION WITH U.S. FIRMS.

4. FOR ADDRESSEES INFORMATION, TREASURY INFORMS US U.S. CONSTRUCTION FIRMS ARE HAVING A DIFFICULT TIME COMPLYING WITH MIDDLE EASTERN GUARANTEE REQUIREMENTS. U.S. BANKING LAWS AND REGULATIONS PROHIBIT THE ISSUANCE OF A BANK GUARANTEE. AS AN ALTERNATIVE TO A BANK GUARANTEE U.S. COMMERCIAL BANKS UTILIZE STANDBY LETTERS OF CREDIT. HOWEVER, SEVERAL DISTINCT DISADVANTAGES RESULT FROM THIS PROCEDURE. THE STANDBY LETTER OF CREDIT LIMITS AVAILABILITY OF CREDIT FOR THE CONTRACTOR. U.S. BANKING REGULATIONS REQUIRE U.S. BANKS TO TREAT A STANBY LETTER OF CREDIT AS A LOAN, RATHER THAN A LIMITED OFFICIAL USE

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PAGE 03 STATE 088294

CONTINGENT LIABILITY. THEREFORE, THE STANDBY LETTER OF CREDIT IS CHARGED TO A CONTRACTOR'S BANK LINE OF CREDIT AS A TERM LOAN THEREBY REDUCING THE CONTRACTOR'S AVAILABLE CREDIT. IN COMPLIANCE WITH U.S. BANKING LAW, THE STANDBY LETTER OF CREDIT MUST BE CHARGED AGAINST THE COMMERCIAL BANK'S LEGAL-LENDING LIMIT WHICH IS FIXED AT 10 OF A BANK'S NET WORTH TO ANY ONE CUSTOMER. THESE BANK REGULATIONS AND LAWS (WHOSE PURPOSE IS TO

ASSURE THE SOUNDNESS OF THE ENTIRE US BANKING SYSTEM)  
PREVENT MANY U.S. BANKS FROM ISSUING A STANDBY LETTER  
OF CREDIT ON BEHALF OF U.S. CONTRACTORS BIDDING ON  
LARGE MULTI-MILLION DOLLAR CONTRACTS FOR THE ABOVE  
REASONS.

5. WE BELIEVE MINISTER KIM'S CLAIM REFTEL THAT KOREAN  
CONSTRUCTION FIRMS WILL TRIPLE ORIGINAL GOAL OF \$1.2  
BILLION IN MIDDLE EASTERN CONTRACTS IN 1976 MAY IN FACT  
HAVE SOME SUBSTANCE. A SINGLE KOREAN COMPANY INVOLVED  
IN SAUDI ARABIA HAS ALREADY SURPASSED THE \$1 BILLION  
MARK IN 1976. THE HYUNDAI CONSTRUCTION COMPANY HAS BEEN  
AWARDED A \$1 BILLION CONTRACT TO DEVELOP A PORT AT  
JUBAYL ON THE GULF COAST, A \$181.5 MILLION CONTRACT

FOR THE ARMY CORPS OF ENGINEERS FOR OFFSHORE FACILITIES  
IN JUBAYL, AND A MAJOR PORT CONTRACT IN BAHRAIN. WE  
SHARE EMBASSY'S VIEW THAT PACE OF EXPANSION OF ROK  
CONTRACTS ABROAD COULD RESULT IN OVEREXTENSION AND  
WOULD APPRECIATE EMBASSY'S LATEST ASSESSMENT OF  
SITUATION.

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## Message Attributes

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**Disposition Authority:** izenbei0  
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